

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE KNYSNA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Knysna Municipality set out on pages 9 to 90, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2014 and its financial performance, and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during the 2013 - 14 financial year in the financial statements of the Knysna Municipality at, and for the year ended, 30 June 2013.

Material losses/impairments

9. As disclosed in note 41.6 to the financial statements, the municipality incurred material electricity distribution losses during the year as follows: 19 992 mega watts (2012-13: 19 993 mega watts), equalling 11% (2012-13: 11%) of units purchased and amounting to R13 194 720 (2012-13: R16 654 660).
10. As disclosed in note 18 to the financial statements the municipality had receivables from exchange transactions totalling R75 713 848 at June 2014 (2012-13: R59 263 889). A provision for impairment of 42.6% (2012-13: 38.2%) to the amount of R32 296 594 (2012-13: R22 683 402) was raised against receivables from exchange transactions.
11. As disclosed in note 19 to the financial statements the municipality had receivables from non- exchange transactions totalling R84 570 502 (2012 -13: R49 001 669). A provision for impairment of 64.6% (2012-13: 37.5%) to the amount of R54 680 835 (2012-13: 18 366 226) was raised against receivables from non-exchange transactions.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The supplementary information set out on pages 91 to 97 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the Municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Knysna Municipality for the year ended 30 June 2014:
- Strategic Objective (SO) 1: To promote access for all citizens to equitable, appropriate and sustainable infrastructure and services within a safe environment on pages 148 to 152.
 - Strategic Objective (SO) 5: To ensure a municipality that is committed to an innovative approach, prudent investment of public funds, good governance, financial viability and optimal institutional transformation that accommodates diversity in service delivery on pages 158 to 165.
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matters

21. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

22. Refer to the annual performance report on pages 148 to 168 for information on the achievement of planned targets for the year.

Material adjustments to the annual performance report

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of SO1 "To promote access for all citizens to equitable, appropriate and sustainable infrastructure and services within a

safe environment" and SO5 "To ensure a municipality that is committed to an innovative approach, prudent investment of public funds, good governance, financial viability and optimal institutional transformation that accommodates diversity in service Delivery". As management subsequently corrected the misstatements I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with laws and regulations

24. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
25. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. I did not identify any significant deficiencies in internal control.

Auditor-General

Cape Town

28 November 2014



AUDITOR-GENERAL
SOUTH AFRICA

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